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A Capitol battle

Industry swarms to Sacramento in lobbying blitz

by Alan Liddle

SACRAMENTO, Calif. — Alarmed that pending legislation could cripple their businesses and lead to widespread layoffs, more than 160 California restaurateurs and suppliers descended on the state Capitol to plead their case and otherwise buttonhole and cajole lawmakers.

Topping the list of concerns mentioned by most of the amateur lobbyists were bills that would require employers to provide workers with health-care insurance .

But skyrocketing workers compensation insurance costs and threatened reductions in the business meal deduction also troubled many operators.

"We're at the point where the employer community is going to get really mad," Pasadena operator Michael R. Hawkins warned Sen. Newton Rus-

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NRN Photo

From left: Michael Franks, co-owner of Fino, Torrance, Calif.; Carol Roberts, GM, and Paul Hennessey, owner, of Hennessey's Tavern Inc., Redondo Beach; and John L. Bowler, publican, Fat Face Fenner's Falloon, Hermosa Beach.

Operators eye new wild card in video poker

by Robin Lee Allen

Video poker machines could become as familiar as jukeboxes in restaurants and taverns if cash-strapped states turn to legalized computer gambling to solve their budget woes.

Already legal in South Dakota and Montana, video poker machines are expected to soon spring up in restaurants, bars and hotels in Louisiana and Oregon, where legislation was recently approved.

Moreover, lawmakers from 24 other states — including New York, Illinois, Massachusetts, New Jersey, New Mexico and Florida — have introduced similar bills in their legislatures.

In the two states where the machines are legal, restaurateurs say that video poker can be a lucrative form of alternative income — in some cases adding more than $18,000 per machine annually to the bottom line.

"Video lottery is designed to make money," declared Paul Van Bockern, co-owner of the three Minerva's restaurants in Sioux Falls, S.D. "You always end up making money. It's designed for them [the customers] to lose. Sometimes they win, but if you're going to play, you're going to pay."

However, critics charge that the games also could cannibalize foodservice sales if customers feed the machines more often than they feed themselves.

"There's been the question raised that if these are indeed discretionary dollars, will the customers take the dollars used to eat out and put them into these machines?" observed Fred G. Sampson, president of the New York State Restaurant Association, in whose state legislation was recently introduced. "It's always a possibility, but I'm not sure how valid it is."

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SOS raises $2.5 million for hunger relief

Chefs, operators in US, Canada unite at Taste of the Nation

by Milford Prewitt

The annual outpouring of restaurant goodwill called Taste of the Nation raised more than $2.5 million for hunger relief and related charities during the week-long star-studded series of food and wine events.

The 5-year-old event lived up to its growing reputation as the restaurant industry's largest charity gala as more than 4,000 chefs representing 2,000 restaurants from a total of 99 cities across the United States and Canada came together to assist 175 hunger relief charities worldwide.

Although the $2.5 million fell about $275,000 shy of the group's goal, executives of Share Our Strength, the organizers of Taste of the Nation, are confident that the total amount raised ultimately will top $3 million when another 18 cities — which were unable to hold the events because of scheduling conflicts during the official week of March 30 through April 6 — conduct their Taste events between now and June.

NRN Photos

Left: Joel Ross, Metro Center Grille, Washington, serves crowd at Union Station. Right: In New York, Sign of the Dove owner Berg Santo, left, helps exec chef Andrew D'Amico and assistant Maggie Ruggiero dish out aged beef rib-eye aboard the World Yacht.

Nevertheless, SOS organizers and participants said they were gratified that in the second year of a recession — one that has been particularly tough on restaurants and foodservice operators — this year's Taste of the Nation was bigger than ever before.

"I think one of the reasons we've become so successful is that people are finding SOS a very effective and efficient way to contribute to a good cause," said Bill Shore, SOS founder and executive director. "The enthusiasm from the contributors and the pride of the restaurants and foodservice operators is a force that is building on itself."

Unlike many charitable

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NEWS BRIEFS

Pizza Hut buys 236 stores from franchisee PMI

WICHITA, Kan. — After a five-year-long battle, Pizza Hut Inc. has reached an agreement to acquire all 236 pizza outlets from the company's largest franchisee, Pizza Restaurant Management Inc. in San Antonio.

Details of the transaction were not disclosed.

PMI, led by Arturo Torres, had waged a bitter legal dispute with the PepsiCo-owned subsidiary over PMI's insistence on going public. Torres dealt Pizza Hut a blow last fall when he began serving Coca-Cola beverages at his restaurants.

Menu prices up 2.6% in March, government says

WASHINGTON — Menu price inflation slowed to 2.6 percent in March on a 12-month unadjusted basis after rising by 2.7 percent in February and 2.9 percent in January, according to the Labor Department's Consumer Price Index.

At the same time wholesale foods costs declined 1.4 percent in March — even though several vital food commodities increased — according to the department's Producer Price Index.

Overall, the CPI, the leading gauge of the cost of living, rose 3.2 percent on an annual, unadjusted basis in March.

Grocery store prices were up just 1.1 percent in March.

McDonald's plans McLean revamp

OAK BROOK, Ill. — McDonald's is planning to change the ingredients in its low-fat burger, the McLean Deluxe, to make it "more flavorful and juicier," the company said in its annual report.

The reformulation comes nearly a year after the revolutionary low-fat burger was first introduced, utilizing carrageen, a seaweed extract used for moisture retention.

The change in the McLean Deluxe was one of many McDonald's said it was contemplating in its unit operations. The world's largest restaurant company said it is also looking to install fixings bars, movable seating and an easier-to-read menu board.

Burger King to sell Burger King Dist. to Canadian firm

MIAMI — Just two weeks after forming a franchisee-managed buying co-op, Burger King has reached an agreement to sell its in-house distribution department, Burger King Distribution, to a Canadian venture capitalist group.

Once known as Distron, BKDS will become a subsidiary of Onex Corp., a mergers, acquisitions and leveraged buyout concern. Terms of the deal are pending regulatory approvals and completion of financing agreements that are not expected to be finalized before the end of June.

BKDS, with 1,500 employees and 21 distribution centers nationwide, distributed food and paper products throughout the BK system. Its name is expected to change, but it will continue to be based in Miami and serve the BK system with the same personnel.

Burger King Purchasing, the corporate buying arm that sourced product for BKDS, is expected to dissolve with the formation of Restaurant Services Inc., a franchisee-dominated purchasing co-op that assumes all of BKP's authority for negotiating with approved suppliers.

NJ operators fume at veto of phased 80-cent wage hike

TRENTON, N.J. — To the distress of New Jersey restaurateurs, Gov. Jim Florio has vetoed a bill that would have phased in over two years the 80-cent-per-hour increase in the state's minimum wage that took effect on April 1.

Florio's expected veto came after the 80-cent boost lifted New Jersey's minimum wage to among the nation's highest, at $5.05 per hour. The federal minimum wage is $4.25 per hour.

The vetoed bill, which provided for a 40-cent increase on April 1 and a comparable hike next April, was introduced by Assembly Republicans who fear that the sudden shock of an 80-cent increase will drive businesses from the state. Although Republicans control the state Assembly, they are thought to be reluctant to ignite constituent ire by overriding the Democratic governor's veto and taking away money already in workers' pockets.

Merrill Lynch files reorganization plan for Copeland Ent.

AUSTIN, Texas — Unsecured lender Merrill Lynch has filed a new reorganization plan in the battle to restructure and control the future of Al Copeland Enterprises. Meanwhile, a group led by senior subordinated lender Canadian Imperial Bank of Commerce has proposed former Arby's president Frank Belatti as ACE chief executive if the group's plan is accepted by the bankruptcy judge here.

ACE is the franchisor of the Popeyes and Church's fried-chicken chains.

Merrill Lynch's newest plan would give the lender a 34-percent stake in the reorganized ACE, while the CIBC group would own 66 percent of ACE and continue to hold $258 million in secured debt. ACE would also pay Copeland royalties for his secret spice recipe while continuing to purchase goods from a Copeland-controlled spice company.

At the same time the CIBC group has petitioned the bankruptcy court to add former Arby's executives Belatti, Kam Nassar and Richard Holbrook to its reorganization plan, with Belatti becoming president and chief executive.

National closes 186 stores, halts taco pizza installations

HOUSTON — National Convenience Stores Inc., which is operating its Stop N Go convenience store chain under Chapter 11 bankruptcy protection, has closed 186 of the stores and halted installations of Taco Bell and Pizza Hut counters because of a lack of capital.

The company, which runs the licensed taco and pizza outlets at about 15 Stop N Gos, had planned to expand the program to more than 100 stores.

National still has 808 C-stores in operation following the closures. The cash-strapped company said it recently was granted an extension on repayments of an $8 million loan it obtained after the Chapter 11 filing.

Ex-Carl's VP Perry buys Kelly's chain

IRVINE, Calif. — Raymond J. Perry, the former executive vice president of Anaheim-based Carl Karcher Enterprises and its Carl's Jr. fast-food chain, has acquired the majority ownership of the 20-unit Kelly's Coffee & Fudge Factory coffeehouse chain.

Perry, the presumed heir apparent to the Karcher presidency until his abrupt firing late last year, indicated that Kelly's would be expanded rapidly over the next three years to capitalize on a booming interest in gourmet coffee and coffee houses. The chain's in-line and food-court branches, all of which are franchised, have in-store bakeries and sell candies, espresso-based beverages and coffee beans roasted in the company's own plant.

Terms of the purchase were not disclosed, but Perry is known to have sold about $520,000 worth of Karcher stock during February and March.

Benihana investors charge judge with misconduct

NEW YORK — A group of dissident shareholders of the Benihana chain has filed a complaint with the Florida Judicial Qualifications Commission, alleging judicial misconduct by a Broward County circuit judge.

The complaint asserts that Judge Patti Englander Henning approved an unauthorized settlement of the shareholders' lawsuit, which was brought against officials of the 49-unit Japanese dinner-house operation two years ago.

The suit accused several Benihana executives, including chairman Rocky Aoki, of manipulating funds and causing more than $22 million in loses. Henning declared the suit settled last November.

Benihana has since charged the shareholders with "waging a personal campaign to hurt the company."

FINANCIAL NEWS

When the market's hot, restaurant IPOs sizzle

by Milford Prewitt

WASHINGTON — The number of restaurant companies flooding the market with first-time public stock offerings so far this year equals all of the industry's new initial public offerings registered during 1991.

Nine companies already have become publicly traded entities or are now in the registration process with the Securities and Exchange Commission.

Last month alone eight of the nine companies either completed their initial public offerings or entered the pipeline to do so. Three companies, in fact, filed on the same day.

In a related trend, four companies that had previously gone public have filed to issue new shares of common stock — including Bertucci's Brick Oven Pizza, which completed its initial public offering only last year.

"It's a simple principle at work here: You stroke the market when the market is hot," said Craig Weichmann, an analyst with Morgan, Keegan. "The market has shown a strong receptivity to new issues, even for those companies that are coming back [as publicly traded concerns] like Foodmaker."

Among the companies that have filed stocks with the SEC are Sfuzzi, the Dallas-based Italian dinner-house chain; Krystal Restaurants, the 219-unit, Chattanooga, Tenn.-based burger operator; DF & R Restaurants, a Bedford, Texas-based operator of 19 restaurants in the Tex-Mex and steak-house segments; Longhorn Steaks, the Atlanta-based steak-house chain; and International Fast Foods, a Miami-based fast-food franchisor in Poland.

Completing IPOs are Foodmaker; ShoLodge, a franchisee of Shoney's Inns and restaurants; Lone Star Steakhouses; and Back Bay Restaurants.

The total volume of the nine IPOs either in the pipeline or finished so far this year could potentially top $412 million in new capital that the operations intend to use to improve their balance sheets, expand their chains and apply toward general administrative purposes.

Analysts said the spate of new filings is not unique to the restaurant industry. It cuts across a broad swath of industries as companies in biotechnology, agricultural research, geriatric health care, food processing and tele-and-fiber communications networks expand their concepts and pay off debts by tapping the equity markets.

Moreover, unless the broader stock market experiences a significant contraction, analysts don't expect the flood of new offerings to be restrained this year.

"The window opens, and the window closes," Weichmann said. "In 1989 the window was closed, and then it started opening in 1991 — and you look at the rash of filings, based on year-end company numbers, and there's enough encouragement to keep the window open."

For small-capitalized stock — which describes all but a few of the restaurant issues — the future is particularly encouraging since nearly all of the restaurant companies that went public last year have enjoyed good returns on invested capital.

"If you look at the restaurant companies that went public last year, nearly all of them have doubled their earnings," said David Geraty, an analyst with Equitable Securities. "When you compare that to other industries, you are not finding that kind of return.

"But I think the new offerings are really a continuation of last year," he added. "There were a lot of deals last year, and a lot of investors have been handsomely rewarded. The momentum is just continuing."

Geraty pointed out that most of the companies going public have finely tuned concepts that have proved themselves in their market niche and have the executive talent to take advantage of an industry that has largely matured.

"We're in an industry that after 30 or 40 years has developed a strong talent base of entrepreneurs," he continued. "Now combine that with a strong and growing equity market, and the timing can't be better for quality companies that are eager to grow."

Roger Lipton, an analyst with Ladenburg, Thalmann in New York, said many well-managed companies are looking to get in on the good fortunes their colleagues have enjoyed.

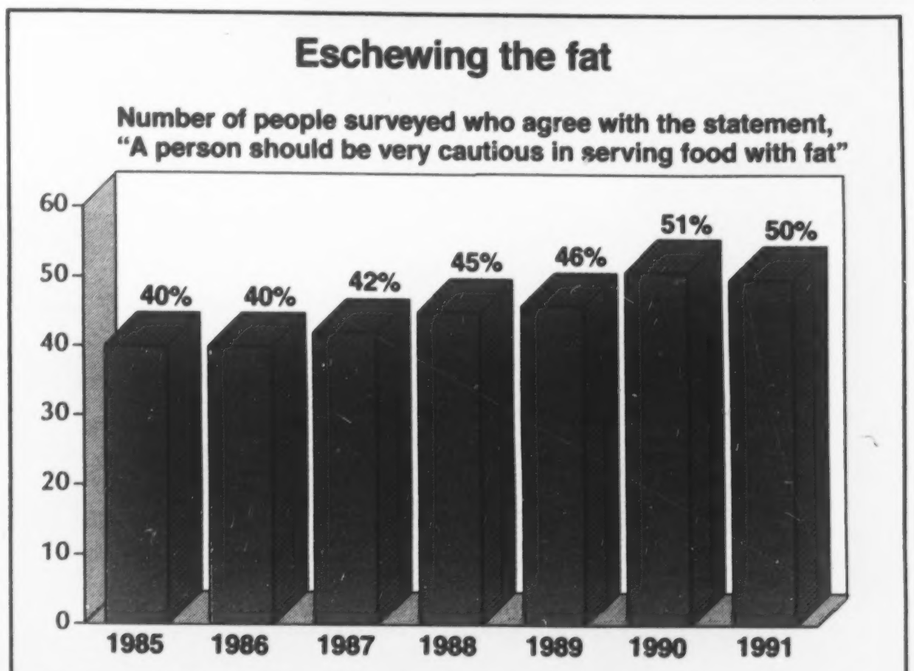
"The valuations and the price-earnings ratios of the restaurant industry are at historically high levels, and that attracts entrepreneurs to raise money," Lipton said.

While IPOs generally garner most of the headlines, many older public companies are increasing their capital base with additional stock.

While Miami Subs issued more than 7.5 million shares in a private placement recently, other companies are continuing to gravitate to Wall Street for new public issues.

Applebee's International filed another 2.8 million shares; Bertucci's filed 1 million shares; and Good Times Restaurants, a double-drive-through chain based in Colorado, issued 3 million units, each consisting of two shares of common stocks and one redeemable stock purchase warrant.

FACT FILE



Source: The NPD Group's National Eating Trends

FINANCIAL DIGEST

Shoney's posts 48% leap in 1st-Q profits

NASHVILLE, Tenn. — Shoney's Inc. reported a 48-percent gain in first-quarter net income, to $8.9 million, on an 8-percent rise in revenues, to $297.5 million, for the first quarter ended Feb. 16.

The company said profits climbed despite flat same-store sales in both the first and fourth quarters.

"This is our 131st consecutive quarter of record revenues," said Leonard H. Roberts, chairman and chief executive officer. "Not many companies can boast of that kind of performance.

"Everyone in this organization is committed to customer service, quality and value, and our results show we're succeeding."

During the quarter Shoney's made $20 million in principal payments against the $585 million of bank borrowing used to finance its 1988 recapitalization. The balance remaining is $270 million.

Expenses erode Skyline Chili's net

FAIRFIELD, Ohio — Interest and depreciation expenses linked to the construction of a new chili plant substantially eroded Skyline Chili's first-quarter profits.

Net income fell more than 90 percent, to $10,000, even though revenues enjoyed a 12-percent gain, to $6.4 million.

"The earnings drop was no surprise," said William G. Kagler, president and chief executive officer. "Our new plant is a major investment for future growth, and we know that the related increase in depreciation and interest expense would have a significant adverse impact on our reported earnings."

But Kagler stated that Skyline Chili is financially secure. He noted that the company's cash flow — or earnings before interest, taxes, depreciation and amortization — improved by 15 percent.

The company operates 28 restaurants in the 79-unit chain.

IDQ's profits flatten on declining revenues

MINNEAPOLIS — International Dairy Queen's net income flattened in the first quarter ended Feb. 4, up just 0.7 percent, to $4.4 million, on a 3-percent drop in revenues, to $56.6 million.

The company would not elaborate about the results. Earlier, IDQ had blamed soft year-end results on the lingering recession.

Furr's/Bishop's restructures debt

LUBBOCK, Texas — Furr's/Bishop's said its Cafeteria Operators L.P. and Cavalcade Foods Inc. units have restructured $179 million in debt by issuing new notes and warrants.

The cafeteria chain said Cafeteria Operators issued $184.4 million in new 11-percent notes due June 1998 for its $60 million in 10.25-percent series A senior notes due 1997, its $90 million of 10.75-percent series B senior notes due 2007 and its bank debt of about $20 million. The company said the notes include accrued and unpaid interest to date.

The company said it would issue new notes in June for the interest payments due at that time and would begin cash interest payments on Dec. 31.

In addition, Cavalcade Foods Inc. issued a new 9-percent, $9.4 million note for a $9 million note and all accrued and unpaid interest owed to a bank that would have been due March 31, 1993.

Vicorp's 1st-Q earnings jump

DENVER — Despite an $857,000 charge related to the redemption of a subordinated debenture, Vicorp said its net income in the first quarter ended Feb. 16 jumped 14 percent, to $3.9 million, on a 3-percent rise in revenues, to $128.8 million.

In all, the company sustained a $1.1 million charge for the extinguishment of debt, which represented the estimated amount that would have been incurred if all the debentures were redeemed.

FOOD PRICE OUTLOOK

Coffee quota agreement may be close

by Patt Patterson

The International Coffee Organization has been meeting, and at presstime it appears that most signals are green for a new quota agreement between producing countries and consuming countries. Large stocks of green beans and low prices are said to be the motivating factors at work. If such an agreement is signed, **roast coffee** prices will rise.

Beef price estimates are for low levels through summer. **Chicken** and **pork** are priced well below beef, and that should keep consumer demand moderate. But don't expect beef prices to fall much below present ranges.

An expected uptick in **cheese** prices because of limited supply didn't really materialize. The market is expected to remain stable with slackened demand and improved supply.

There are no bargains in California **canned apricots.** In fact, most canners have no stock of foodservice sizes left. What's in the distributors' hands is about all that's left until the new pack in summer.

California **canned tomatoes** and **tomato products,** however, are still in large supply, and canners' prices have drifted down in an effort to unload some of the inventory before the new season. Recent planting intentions are about 25 percent below last year's acreage. The 1992 pack is estimated at about 20 percent lower than last year's.

Frozen spinach stocks are ample, but expect supplies of leaf to be tight. The canned pack in Arkansas has ended, with about normal production this year.

Lettuce production has moved heavily into the San Joaquin Valley, and volume is up and prices are down. A few Salinas growers are offering lettuce, but the production won't swing over to the Salinas Valley until early May. Acreage is about the same as last year's, overall. Expect low prices till the end of spring at least.